

Banco Santander, S.A. Hong Kong Branch

Financial Disclosure Statement

For the year ended 31 December 2018

**BANCO SANTANDER, S.A.
HONG KONG BRANCH**

CONTENTS

Branch Information	Page
Unaudited Income Statement	3
Unaudited Balance Sheet	4
Unaudited Supplementary Information	5
Bank Information	
Group Consolidated Financial Information	17
Statement of Compliance	18

Unaudited Income Statement

	Note	For the year ended	
		31 Dec 2018 HK\$'000	31 Dec 2017 HK\$'000
Interest income		1,067,864	591,830
Interest expense		(1,201,910)	(493,941)
Other operating income			
- Gains less losses arising from trading in foreign currencies		554,216	254,529
- Gains less losses from other trading activities		18,371	(1,937)
- Net fees and commission income	1	110,403	42,690
- Others		13,010	14,341
Total operating income		561,954	407,512
Operating expenses			
- Staff expenses		(359,616)	(376,887)
- Rental expenses		(37,211)	(34,134)
- Other expenses		(113,923)	(91,294)
(Charge) / release of impairment allowances for loans and other exposures		(1,392)	292
Gains less losses from the disposal of property, plant and equipment		20	40
Total operating expenses		(512,122)	(501,983)
Profit / (loss) before taxation		49,832	(94,471)
Tax expense		(23,639)	(22,132)
Profit / (loss) after taxation		26,193	(116,603)

Unaudited Balance Sheet

	Note	31 Dec 2018 HK\$'000	30 Jun 2018 HK\$'000
ASSETS			
Cash and balances with banks (except those included in amount due from overseas offices)		1,578,704	1,131,623
Due from Exchange Fund		8,549	13,694
Placement with banks which have a residual contractual maturity of more than one month but not more than 12 months (except those included in amount due from overseas offices)		8,829,626	10,438,914
Amount due from overseas offices		17,283,692	24,529,549
Trade bills		2,133,029	2,636,762
Loans and receivables	2	19,478,213	13,618,625
Investment securities		15,405,581	8,784,348
Property, plant and equipment		5,776	7,068
TOTAL ASSETS		64,723,170	61,160,583
LIABILITIES			
Deposits and balances from banks (except those included in amount due to overseas offices)		32,882,325	31,147,055
Due to Exchange Fund		3,132,751	5,994,300
Deposits from customers			
- demand deposits and current accounts		89,212	9,701
- savings deposits		282,086	385,861
- time, call and notice deposits		525,032	81,391
Amount due to overseas offices		22,660,458	18,130,043
Certificates of deposit issued		728,319	1,149,431
Accrued interest, other liabilities and provisions		4,422,987	4,262,801
TOTAL LIABILITIES		64,723,170	61,160,583

Unaudited Supplementary Information

1. Net fees and commission income

	For the year ended	
	31 Dec 2018 HK\$'000	31 Dec 2017 HK\$'000
Gross fees and commission income	142,577	69,320
Gross fees and commission expenses	(32,174)	(26,630)
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Net fees and commission income	110,403	42,690
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2. Loans and receivables

	31 Dec 2018 HK\$'000	30 Jun 2018 HK\$'000
	Loans and advances to customers (note 8)	16,579,196
Accrued interest and other accounts	2,905,541	3,238,683
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	19,484,737	13,630,077
Impairment Allowances		
- Stage 1	(6,524)	(11,452)
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	19,478,213	13,618,625
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3. Impaired loans and advances

There were no impaired loans and advances to customers or banks as at 31 December 2018 and 30 June 2018.

4. Derivative transactions

	31 Dec 2018 HK\$'000	30 Jun 2018 HK\$'000
	Nominal amounts	
- Exchange rate-related derivative contracts	226,076,606	220,531,740
- Interest rate derivative contracts	60,347,277	51,485,245

Unaudited Supplementary Information (Continued)

4. Derivative transactions (continued)

	31 Dec 2018	30 Jun 2018
	HK\$'000	HK\$'000
Fair value assets		
- Exchange rate-related derivative contracts	2,505,445	2,901,493
- Interest rate derivative contracts	206,520	174,234
Fair value liabilities		
- Exchange rate-related derivative contracts	2,536,539	2,629,243
- Interest rate derivative contracts	296,048	194,065

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs. There is no bilateral netting arrangements for these derivative contracts.

5. Off-balance sheet exposures

	31 Dec 2018	30 Jun 2018
	HK\$'000	HK\$'000
Contractual amounts		
- Direct credit substitutes	2,838,245	982,976
- Transaction-related contingencies	1,492,292	944,984
- Trade-related contingencies	3,791,117	354,219
- Other commitments	26,453,345	31,397,125
- Others (forward forward deposits placed)	6,902	6,585,696

Unaudited Supplementary Information (Continued)

6. International claims

International claims refer to exposures to counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any recognized risk transfer. Only countries constituting 10% or more of our total international claims are disclosed as follows:

HK\$ million	Banks	Official sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
As at 31 Dec 2018						
Developed countries	18,295	13,408	-	1,054	-	32,757
<i>Of which: Spain</i>	18,136	-	-	-	-	18,136
<i> Japan</i>	4	13,408	-	-	-	13,412
Offshore centres	4,299	-	1,524	6,804	-	12,627
<i>Of which: Hong Kong</i>	4,296	-	1,524	4,333	-	10,153
Developing Asia and Pacific	7,539	-	-	5,692	-	13,231
<i>Of which: China</i>	7,539	-	-	5,692	-	13,231

HK\$ million	Banks	Official sector	Non-bank private sector		Others	Total
			Non-bank financial institutions	Non-financial private sector		
As at 30 Jun 2018						
Developed countries	26,290	6,788	-	1,206	-	34,284
<i>Of which: Spain</i>	24,584	-	-	-	-	24,584
<i> Japan</i>	788	6,788	-	-	-	7,576
Developing Asia and Pacific	11,575	-	1,216	2,321	-	15,112
<i>Of which: China</i>	11,575	-	1,216	2,321	-	15,112

Unaudited Supplementary Information (Continued)

7. Gross loans and advances to customers by geographical areas

Analysis of gross amount of loans and advances to customers by major countries or geographical segments in accordance with the location of the counterparties after taking into account any recognized risk transfer. In general, risk transfer applies when the loans and advances are guaranteed by a party in a country which is different from that of the customer. Major countries constituting 10% or more of our total gross amount of advances are disclosed as follows:

	31 Dec 2018		30 Jun 2018	
	HK\$'000	% to total advances to customers	HK\$'000	% to total advances to customers
Gross amount of advances				
- Hong Kong	6,313,769	38.08%	4,504,894	43.35%
- China	5,683,592	34.28%	3,521,012	33.88%
- Cayman	1,666,441	10.05%	954,684	9.19%
- Others	2,915,394	17.59%	1,410,804	13.58%
	<u>16,579,196</u>	<u>100.00%</u>	<u>10,391,394</u>	<u>100.00%</u>
Overdue or impaired loans	<u>-</u>		<u>-</u>	

Unaudited Supplementary Information (Continued)

8. Sector information

Analysis of gross advances to customers and the percentage of secured advances classified into following industry categories:

	31 Dec 2018		30 Jun 2018	
	HK\$'000	% of gross advances covered by collateral or other security	HK\$'000	% of gross advances covered by collateral or other security
Loans and advances for use in Hong Kong				
- Industrial, commercial & financial				
- Wholesale and retail trade	-	-	750,000	-
- Manufacturing	720,533	-	721,827	-
- Others	1,283,187	-	1,059,636	-
	<u>2,003,720</u>		<u>2,531,463</u>	
Trade Finance	1,259,926	2.29%	563,674	7.20%
Loans and advances for use outside Hong Kong	13,315,550	1.16%	7,296,257	-
	<u>16,579,196</u>		<u>10,391,394</u>	

9. Overdue or rescheduled assets

As at 31 December 2018 and 30 June 2018, there were no loans and advances to customers or other assets which were overdue for more than three months, nor were there any rescheduled assets.

10. Repossessed assets

There were no repossessed assets held as at 31 December 2018 and 30 June 2018.

Unaudited Supplementary Information (Continued)

11. Non-bank Mainland exposures

The following Mainland exposures to non-bank counterparties are prepared in accordance with the completion instructions for Return of Mainland Activities issued by the Hong Kong Monetary Authority (“HKMA”).

Types of Counterparties	On-balance sheet exposure HK\$ million	Off-balance sheet exposure HK\$ million	Total HK\$ million
As at 31 Dec 2018			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	11,045	6,888	17,933
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	846	321	1,167
4. Other entities of central government not reported in item 1 above	1,112	-	1,112
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	13,003	7,209	20,212
Total assets after provision	64,721		
On-balance sheet exposures as percentage of total assets	20.09%		

Unaudited Supplementary Information (Continued)

11. Non-bank Mainland exposures (continued)

Types of Counterparties	On-balance sheet exposure HK\$ million	Off-balance sheet exposure HK\$ million	Total HK\$ million
As at 30 Jun 2018			
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	6,240	3,112	9,352
2. Local governments, local government-owned entities and their subsidiaries and JVs	-	-	-
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	144	390	534
4. Other entities of central government not reported in item 1 above	1,103	-	1,103
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	7,487	3,502	10,989
Total assets after provision	61,160		
On-balance sheet exposures as percentage of total assets	12.24%		

Unaudited Supplementary Information (Continued)
12. Currency risk

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

HK\$ million

As at 31 Dec 2018

	AUD	CAD	CNY	USD	EUR	GBP	Others	Total
Spot assets	311	39	675	25,205	19,986	1,822	14,160	62,198
Spot liabilities	(1)	-	(474)	(60,238)	(3,067)	(274)	(13)	(64,067)
Forward purchases	319	23	49,670	125,180	23,093	732	14,170	213,187
Forward sales	(638)	(23)	(50,136)	(89,975)	(39,944)	(2,273)	(28,316)	(211,305)
Net option position	-	-	-	-	-	-	-	-
Net long (short) position	(9)	39	(265)	172	68	7	1	13
Net structural position	-	-	-	6	-	-	-	6

As at 30 Jun 2018

	AUD	CAD	CNY	USD	EUR	GBP	Others	Total
Spot assets	564	-	555	25,977	22,814	1,067	7,410	58,387
Spot liabilities	(71)	-	(179)	(55,792)	(4,972)	(127)	-	(61,141)
Forward purchases	377	18	44,199	123,631	32,595	1,853	6,206	208,879
Forward sales	(878)	(18)	(44,411)	(93,800)	(50,424)	(2,788)	(13,638)	(205,957)
Net option position	-	-	-	-	-	-	-	-
Net long (short) position	(8)	-	164	16	13	5	(22)	168
Net structural position	-	-	-	7	-	-	-	7

Delta equivalent approach method is used to calculate net options position of the Branch.

Unaudited Supplementary Information (Continued)

13. Liquidity information disclosures

i. Liquidity maintenance ratio (“LMR”)

	For the quarter ended 31 Dec 2018	For the year ended 31 Dec 2017
Average LMR for the financial period	56.75%	41.97%

The average liquidity maintenance ratio is the simple average of each month’s average liquidity maintenance ratio for the reporting period. Liquidity maintenance ratio is calculated in accordance with the guidelines of the HKMA and the Banking (Liquidity) Rules.

The liquidity information disclosure is also available under section “Shareholders and Investors” on Banco Santander S.A.’s website at www.santander.com.

ii. Liquidity risk management

Liquidity risk comprises the risk of the Banco Santander S.A. Hong Kong Branch (the “Branch”) not being able to fund increases in its assets or meet obligations as they fall due without incurring unacceptable losses. Liquidity risk identification, measurement, monitoring and control for the Branch are commensurate with the limited scope of our business and its role as the funding center in Asia-Pacific.

Risk Management Policies and the Risk Tolerances are set at the Head Office level. This risk tolerance is transmitted to the Branch level by the setting of individual branch liquidity gap measures, other liquidity metrics, and controls.

Governance

The Santander approach to risk management is committee-based for all decisions. The Branch has an Asset-Liability Committee (“ALCO”), responsible for the management of assets, liabilities, commitments and contingent liabilities of the Branch. Its role is to ensure that the management of the risk profile and liquidity profile of the Branch is carried on within the approved limits and policies. ALCO formulates and approves, on a yearly basis, a strategic funding plan for the Branch. The plan is regularly reviewed to take into account of projected balance sheet growth and liquidity sources. The Branch also has an Asia SCIB Executive Risk Committee (“APAC ERC”), responsible for approving risk documents and limits, including but not limited to, those related to liquidity. The support units assigned with to identify, measure and monitor risks are independent of the business origination functions. Asia Pacific Market & Structural Risk is responsible for the monitoring of liquidity risks. Accounting and Control area is responsible for the calculation of the liquidity maintenance ratios and provides all the relevant data on balance sheet in order to closely monitor the daily liquidity situations. Global Markets department is responsible for managing daily liquidity position and execution of funding strategy in accordance with the Branch’s Liquidity Risk Management Manual.

Unaudited Supplementary Information (Continued)

13. Liquidity information disclosures (continued)

ii. Liquidity risk management (continued)

Liquidity metrics reporting

The Branch has put in place a set of metrics and monitoring tools to measure and identify its liquidity risk. Daily monitoring of LMR and LMR projections are done by the Accounting and Control area. In addition, Asia Pacific Market & Structural Risk team prepares daily and monthly liquidity monitoring reports including liquidity gap, liquidity stress testing, etc. which are submitted for review in ALCO and APAC ERC.

Stress testing

Monthly stress tests are carried out in order to identify sources of potential liquidity strain, monitor liquidity exposures and assess impact of future liquidity stresses on the Branch's cash flows, liquidity position, profitability and solvency. These scenarios cover institution-specific, market-wide stress scenarios and a combination of both. The design of the stress test is adequate to the Branch business scope and funding structure and will be reviewed on a yearly basis along with the Liquidity Risk Management Manual to ensure its effectiveness.

Results of the stress tests are reported to APAC ERC and ALCO, and are considered in the Branch's strategic funding plan and the formulation of the Contingency Funding Plan.

Funding and market access

The aim is to maintain a self-funding posture to the greatest extent possible. However, as a full branch of Banco Santander S.A., the Head Office is always ready as a source of funding for the Branch in times of stress. The Branch actively pursues funding from different market sources and ALCO reviews the liabilities compositions monthly to ensure that funding concentrations are managed to a minimum with the constraints of the business model.

Maintenance of liquidity cushion

The Branch holds a liquidity cushion to cope with liquidity needs at all times, including during periods of stress. The composition of the Branch's liquidity cushion consists of cash and high quality marketable securities issued or guaranteed by sovereigns.

Contingency Funding Plan ("CFP")

The Branch maintains a framework to monitor and respond to potential liquidity problems. The objective is to define a series of liquidity risk triggers, critical events and the appropriate response by the Branch to these warnings. The CFP prescribes possible courses of action with defined roles and responsibilities to address any emergency situations and prepare the Branch for additional funding pressures should they develop. The CFP will be reviewed on at least an annual basis by ALCO.

Unaudited Supplementary Information (Continued)

iii. Liquidity gap

The table below analyses the on- and off-balance sheet items of the Branch, broken down into maturity buckets and the resultant liquidity gaps:

HK\$ million	Total amount	Next day	2 to 7 days	8 days to 1 month	>1 month up to 3 months	>3 months up to 6 months	>6 months up to 1 year	>1 year up to 2 years	>2 years up to 3 years	>3 years up to 5 years	Over 5 years	Balancing amount
As at 31 Dec 2018												
Amount receivable arising from derivative contracts	2,325	32,409	20,383	20,122	20,127	52,674	5,277	6,054	6,361	45	768	-
Cash and due from banks	27,808	13,149	1,736	1,895	8,842	1,254	632	157	-	143	-	-
Trade bills	2,133	21	413	447	908	331	13	-	-	-	-	-
Debt securities held	15,406	15,406	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	16,514	49	30	4,768	2,990	253	3,303	582	2,650	1,024	865	-
Other assets	56	-	-	8	26	3	2	9	-	-	-	8
Total on-balance sheet assets	64,242	61,034	22,562	27,240	32,893	54,515	9,227	6,802	9,011	1,212	1,633	8
Total off-balance sheet claims	7	-	-	7	-	-	-	-	-	-	-	-
Deposits from customers	897	450	-	447	-	-	-	-	-	-	-	-
Amount payable arising from derivative contracts	2,446	32,397	20,538	19,935	20,224	52,764	5,250	6,045	6,355	41	6	-
Due to banks	58,852	13,780	3,060	16,758	21,236	3,940	-	-	-	-	78	-
Debt securities issued	730	-	-	-	650	80	-	-	-	-	-	-
Other liabilities and reserves	1,317	-	-	1	48	26	89	69	73	-	-	1,011
Total on-balance sheet liabilities	64,242	46,627	23,598	37,141	42,158	56,810	5,339	6,114	6,428	41	84	1,011
Total off-balance sheet obligations	15,030	491	6,906	791	2,509	2	-	-	-	-	-	4,331
Contractual maturity mismatch		13,916	(7,942)	(10,685)	(11,774)	(2,297)	3,888	688	2,583	1,171	1,549	
Cumulative contractual maturity mismatch		13,916	5,974	(4,711)	(16,485)	(18,782)	(14,894)	(14,206)	(11,623)	(10,452)	(8,903)	

Unaudited Supplementary Information (Continued)

iii. Liquidity gap (continued)

HK\$ million	Total amount	Next day	2 to 7 days	8 days to 1 month	>1 month up to 3 months	>3 months up to 6 months	>6 months up to 1 year	>1 year up to 2 years	>2 years up to 3 years	>3 years up to 5 years	Over 5 years	Balancing amount
As at 31 Dec 2017												
Amount receivable arising from derivative contracts	2,527	24,847	5,449	9,080	27,049	24,440	21,766	12,270	5,962	6,504	12	-
Cash and due from banks	27,370	14,054	801	1,980	2,197	4,333	3,633	156	52	164	-	-
Trade bills	2,879	209	222	566	1,455	414	13	-	-	-	-	-
Debt securities held	9,075	9,075	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	14,327	13	15	5,643	3,647	1,912	1,797	223	234	843	-	-
Other assets	24	-	-	-	1	-	-	-	9	-	-	14
Total on-balance sheet assets	56,202	48,198	6,487	17,269	34,349	31,099	27,209	12,649	6,257	7,511	12	14
Total off-balance sheet claims	338	338	-	-	-	-	-	-	-	-	-	-
Deposits from customers	442	274	156	-	12	-	-	-	-	-	-	-
Amount payable arising from derivative contracts	2,505	24,912	5,432	9,117	27,026	24,500	21,736	12,103	5,949	6,500	12	-
Due to banks	50,000	15,621	6,112	7,853	12,711	7,625	-	-	-	-	78	-
Debt securities issued	-	-	-	-	-	-	-	-	-	-	-	-
Other liabilities and reserves	3,255	-	2,000	22	204	-	18	11	7	2	-	991
Total on-balance sheet liabilities	56,202	40,807	13,700	16,992	39,953	32,125	21,754	12,114	5,956	6,502	90	991
Total off-balance sheet obligations	13,081	3,005	10,076	-	-	-	-	-	-	-	-	-
Contractual maturity mismatch	4,724	(17,289)	277	(1,026)	5,455	535	301	1,009	(12,627)	(11,618)	(78)	(11,696)
Cumulative contractual maturity mismatch	4,724	(12,565)	(12,288)	(17,892)	(18,918)	(13,463)	(12,928)	(11,618)	(11,618)	(11,618)	(11,618)	(11,618)

Unaudited Supplementary Information (Continued)

14. Disclosure on remuneration

Pursuant to section 3 of Supervisory Policy Manual (CG-5) Guideline on a Sound Remuneration System issued by the HKMA, Banco Santander, S.A. Hong Kong Branch complies with the requirements and has adopted the remuneration systems of Banco Santander, S.A. Head Office. Please refer to the 2018 Annual Report of Banco Santander, S.A. for details.

Group Consolidated Financial Information

Capital and capital adequacy

	31 Dec 2018	30 Jun 2018
Capital ratio (Basel III)		
CET1 capital ratio	11.47%	10.98%
Tier 1 capital ratio	13.12%	12.62%
Total capital ratio	14.99%	14.47%

EUR Million EUR Million

Total equity	107,361	104,445
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Other financial information

	31 Dec 2018	30 Jun 2018
	EUR Million	EUR Million
Total assets	1,459,271	1,433,833
Total liabilities	1,351,910	1,329,388
Total advances to customers	882,921	862,092
Total customer deposits	780,496	774,425

For the year ended

	31 Dec 2018	31 Dec 2017
	EUR Million	EUR Million
Pre-tax profit	14,201	12,091

Statement of Compliance

This Disclosure Statement has been prepared in accordance with the Banking (Disclosure) Rules and the disclosure standards as stated in the Hong Kong Monetary Authority's Supervisory Policy Manual on "Guideline on the Application of the Banking (Disclosure) Rules". To the best of my knowledge, the disclosure is not false or misleading in any material respect.



Derek Gibson
Alternate Chief Executive
Banco Santander, S.A. Hong Kong Branch